Retail Advisory Group

Review of Domestic Contracting Arrangements

Options Paper

18 September 2013

Note: This paper has been prepared for the purpose of the Retail Advisory Group. Content should not be interpreted as representing the views or policy of the Electricity Authority.

The Retail Advisory Group

The Retail Advisory Group (RAG) provides independent advice to the Electricity Authority (Authority) on the development of the Electricity Industry Participation Code 2010 (Code) and market facilitation measures, focusing on the relationships between the retailer, distributor and consumer.

The members of the RAG approving this discussion paper are:

Peter Allport, Chair

Dene Biddlecombe

Suzanne Chetwin

Sarah Free

Ewan Gebbie

Andrew McLeod

James Munro

Nathan Strong

The RAG has been requested by the Authority to identify arrangements to examine the operational effectiveness of aspects of the domestic contracting arrangements, and to identify and recommend alternatives that promote competition in, reliable supply by, and efficient operation of the electricity industry for the long-term benefits of consumers.

The Authority has statutory responsibility for the Code, and for undertaking market facilitation measures and monitoring the operation and effectiveness of market facilitation measures.

The RAG will use feedback from participants and consumers to develop advice and recommendations to the Authority Board on domestic contracting arrangements.

Contents

Figures

1 What you need to know to make a submission

1.1 What this consultation paper is about

1.1.1 The purpose of this paper is to outline the key themes raised in submissions on the Retail Advisory Group's (RAG's) issues paper seeking feedback on any problems relating to the operational effectiveness of the domestic contracting arrangements, and to seek feedback on options for addressing the problems that have been identified.

1.2 Objectives of the project

1.2.1 The Electricity Authority (Authority) requested the RAG to review domestic contracting arrangements, including an assessment of:

a) whether to develop minimum terms and conditions for the relationship between consumers and distributors (where the distributor has a direct relationship) and retailers (referred to as conveyance model arrangements)

b) the potential to improve the operational efficiency of the arrangements to assist medically dependent and vulnerable consumers

c) whether to more closely monitor retailers' behaviours by monitoring their compliance with their domestic contracts, for example, by collecting and reporting consumer complaints data.

1.2.2 The objective of this project is to examine the operational effectiveness of aspects of the domestic contracting arrangements, and to identify and recommend alternatives that promote competition in, reliable supply by, and efficient operation of the electricity industry for the long-term benefits of consumers.

1.3 How to make a submission

1.3.1 Your submission is likely to be made available to the general public on the Electricity Authority's (Authority's) website. If necessary, please indicate any documents attached in support of your submission and any information that is provided on a confidential basis. However, you should be aware that all information provided to the Authority is subject to the Official Information Act 1982.

1.3.2 The RAG's preference is to receive submissions in electronic format (Microsoft Word) in the format shown in Appendix A. Submissions in electronic form should be emailed to RAG@ea.govt.nz with "RAG – Review of Domestic Contracting Arrangements" in the subject line.

1.3.3 Do not send hard copies of submissions unless it is not possible to do so electronically. If you cannot or do not wish to send your submission electronically, you should post one hard copy of the submission to either of the addresses provided below or you can fax it to 04 460 8879. You can call 04 460 8860 if you have any questions.

Postal address	Physical address
Retail Advisory Group C/- Electricity Authority PO Box 10041 Wellington 6143	Retail Advisory Group C/- Electricity Authority Level 7, ASB Bank Tower 2 Hunter Street Wellington

1.4 Deadline for receiving a submission

1.4.1 Submissions should be received by **5pm** on **[## November] 2013**. Please note that late submissions are unlikely to be considered.

1.4.2 The Authority will acknowledge receipt of all submissions electronically. Please contact the Submissions' Administrator at one of the addresses above if you do not receive electronic acknowledgement of your submission within two business days.

2 Introduction

2.1 Background

2.1.1 The domestic contracting arrangements are a package of market facilitation measures relating to the relationships between retailers, distributors and customers. The package includes:

a) voluntary good practice contracting minimum terms and conditions for domestic retail contracts (interposed model arrangements – where the consumer has a relationship with the retailer, and the retailer has the relationship with the distributor) (minimum terms and conditions (interposed))

b) guidelines on arrangements to assist medically dependent consumers (guidelines for medically dependent consumers)

c) guidelines on arrangements to assist vulnerable consumers (guidelines for vulnerable consumers).

2.2 Work to date

2.2.1 On 16 April 2013, the RAG released an issues paper seeking feedback on any problems relating to the operational effectiveness of the domestic contracting arrangements.[1]

2.2.2 At its 17 July 2013 meeting, the RAG considered submissions received on the April issues paper. Submissions were received from 13 interested parties, listed in Table 1.[2]

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Table 1 Submissions on RAG discussion paper – Review of domestic contracting arrangements

Retailers/Generators	Networks	Consumers
Contact Energy Genesis Energy Meridian Energy Mighty River Power Nova Energy Powershop TrustPower	MainPower Orion Vector	Domestic Energy Users' Network (DEUN) Dunedin Community Law Centre Noel Bates

2.2.3 The RAG published a summary of submissions on 23 July 2013.[3]

1 The issues paper can be found at: http://www.ea.govt.nz/our-work/consultations/advisory-group/domestic-contracting-arrangements/.

2 Submissions are available on the Authority's website at: http://www.ea.govt.nz/our-work/consultations/advisory-group/domestic-contracting-arrangements/submissions/.

3 Submissions and the summary of submissions can be found at: http://www.ea.govt.nz/our-work/consultations/advisory-group/domestic-contracting-arrangements/submissions/.

2.3 Next steps

2.3.1 The next steps for the RAG in undertaking this project are as follows:

a) release a discussion paper on options to address problems, as necessary (this paper)

b) make final recommendations to the Board.

3 Minimum terms and conditions for domestic contracts

3.1 Main themes raised in submissions

3.1.1 Submissions were divided on whether the Authority should develop principles and minimum terms and conditions[4] for conveyance model arrangements.

3.1.2 Those in support considered the potential benefits included:

a) improved consistency in the level of service consumers received between distribution areas

b) clearer responsibilities of each party under conveyance model arrangements

c) reduced risk of distributors exercising market power by providing support for consumers to negotiate more efficiently

d) providing guidance on reasonable service levels and when a complaint might be justified, leading to fewer complaints

e) improved transparency for consumers

f) incentives for distributors to engage with consumers.

3.1.3 Those against submitted:

a) there is no evidence of a problem to be solved – the nature of the deadlocked complaints do not point to widespread issues with conveyance model arrangements

b) the proportion of consumers affected by consumers under conveyance model arrangements will greatly reduce as a result of Vector moving away from this model for its Auckland consumers

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[4] Hereafter referred to as ‘minimum terms and conditions’.

c) there is little scope for consumers to negotiate the terms and conditions of distribution agreements due to technical requirements, Commerce Commission and Authority obligations, and pressure to maintain simple tariff structures

d) for some distributors, their consumers are also their shareholders, and so have additional protection.

3.1.4 Submitters generally considered that development costs would be minimal and would be associated with transaction and compliance costs from changing standard terms and conditions. One submitter considered the greatest cost would be displacing other items on the Authority's work programme.

3.1.5 Alternatives suggested by submitters included:

a) developing minimum terms and conditions covering only those aspects of the agreement dealing with the consumer's relationship with the distributor

b) providing information and education to reduce any uncertainty about the relationship between distributors and retailers in the eyes of consumers

c) pursuing more targeted avenues for addressing the underlying causes of the deadlocked complaints.

3.1.6 Submitters had differing views on whether the proposed inclusion in the Consumer Guarantees Act 1993 of provisions relating to unfair contract terms would increase or reduce the need for minimum terms and conditions for conveyance model arrangements. One submitter considered this change would create an urgent need to review the minimum terms and conditions for interposed arrangements.

3.2 The issue is that a gap exists in consumer protections

3.2.1 The RAG considers that consumers supplied under interposed arrangements derive a tangible benefit from having:

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a) their reasonable expectations canvassed, explicitly defined and clearly set out

b) a set of minimum terms and conditions, consistent with their reasonable expectations, explicitly defined and clearly set out.

3.2.2 The issue is that consumers supplied under conveyance distribution arrangements do not have explicit access to a set of minimum terms and conditions governing the contractual relationship with their distributor that reflects their reasonable expectations. These consumers are accordingly potentially disadvantaged compared with consumers supplied under interposed arrangements, ie they don't have equivalent certainty.

3.2.3 The benefits of developing minimum terms and conditions for conveyance arrangements are difficult to quantify as this involves valuing consumer expectations and perceptions. However, the RAG considers there is value in providing certainty to all consumers about their relationships with distributors and retailers. This approach would provide a baseline against which to measure performance against expectations, and would provide greater certainty to consumers, retailers, distributors and the Electricity and Gas Complaints Commission (EGCC) about treatment of complaints.

3.2.4 Therefore, the completion of a set of minimum terms and conditions for conveyance consumers is considered to be in the long-term interests of these consumers, if the development costs are modest.

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3.3 The RAG recommends that the Authority proceeds with development

3.3.1 On balance, the RAG recommends the Authority develops a set of principles or minimum terms and conditions relevant to the direct relationship and contract between consumers and distributors that use the conveyance model.

3.3.2 Although these would represent voluntary arrangements that should not require a Code amendment, the Authority should consult with interested parties before finalising the minimum terms and conditions.

3.3.3 The existing minimum terms and conditions should form a starting point for this exercise and the outputs may include two sets of minimum terms and conditions that relate to a consumer's distributor and retailer relationships respectively. From this starting point, the Authority should consider whether there are new minimum terms and conditions that are unique to the conveyance model.

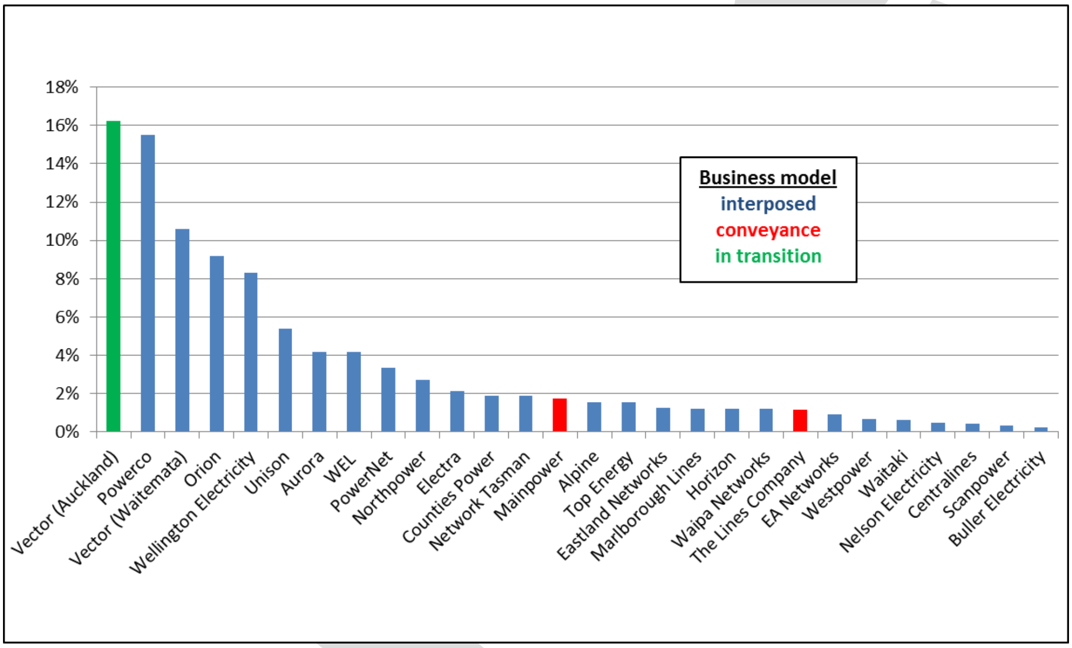
3.3.4 The RAG envisages affected distributors and retailers will take a pragmatic and cost-effective approach to updating their domestic contract terms, and will move to align with the minimum terms and conditions at a convenient time.

Q1.	Do you agree that there is value in providing certainty to all consumers about their relationships with distributors and retailers?

3.4 The RAG has undertaken a preliminary evaluation of the costs and benefits of the proposal

3.4.1 The proportion of consumers that would be affected by the proposal is illustrated in Figure 1.

Figure 1 Distributor ICP share and business model



Source: Registry data August 2013

3.4.2 Vector is understood to be in the process of transitioning the consumers supplied on its Auckland network from conveyance to interposed arrangements. The remaining two networks, MainPower and The Lines Company, supply 3% of all ICPs or 58,400 ICPs in total.

3.4.3 Although the proportion of consumers directly affected by this initiative is small, the RAG considers there are potentially wider beneficial effects that may be derived from more transparent and consistent contractual relationships, which will promote the long-term benefit of consumers. The RAG does not consider a group of consumers should be disadvantaged, simply because they are small in number.

Deleted: <#>There are three objectives for this proposal¶
<#>The objectives of the proposal are to:¶
<#>complete the earlier initiative that set out to develop transparency of the minimum terms and conditions that should apply to the supplier relationships and contracts required by all electricity consumers, regardless of the contracting model adopted by their distributor. The Electricity Commission had intended to complete this work when it developed the minimum terms and conditions for interposed arrangements¶
<#>create a benchmark against which supplier contracts may be assessed¶
<#>create a reference that consumers may use in relation to their direct contractual relationships with distributors.¶

3.4.4 In addition, there is the potential for other distributors to move to a conveyance model in future, so it would be useful to have a set of minimum terms and conditions in place to inform their choices around creating consumer contracts.

There are benefits in developing conveyance minimum terms and conditions, albeit on a modest scale

3.4.5 Having considered submissions, the RAG agrees with the majority views expressed by submitters and, in summary, considers that the benefits of the proposal might include:

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a) improved consistency in service levels provided to consumers across all distribution networks

b) clearer responsibilities of each party to a consumer contract for distribution and energy services under conveyance arrangements

c) reduced ability for distributors to exercise power by providing a benchmark that consumers and consumer representative groups may reference in future consultations around distribution service terms and conditions

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d) providing guidance on reasonable service levels and relationship expectations applying to suppliers

e) providing guidance on when a complaint might be justified, leading to fewer complaints and disputes

f) providing incentives for distributors (in particular) to better engage with consumers.

The costs to develop minimum terms and conditions are modest

3.4.6 Minimum terms and conditions relating to a consumer's full set of expectations of a retailer under the interposed model have previously been developed, including periods of consultation and a revision in 2011.

3.4.7 The interposed minimum terms and conditions combine expectations relating to both the electricity a consumer purchases from a retailer and the delivery of that electricity (which the retailer purchases at wholesale from a distributor and on-sells to the consumer at retail).

3.4.8 Accordingly, developing two sets of minimum terms and conditions relevant to a consumer's direct contractual relationships with a distributor and a retailer is likely to be a relatively straightforward exercise. The exercise should involve the unbundling of distributor- and retailer-relevant terms and conditions from the current set of interposed minimum terms and conditions. The resulting sets of minimum terms and conditions are expected to be relatively non-controversial.

3.4.9 The RAG considers that the cost properly ascribed to the proposal is in the Authority's development of the minimum terms and conditions, not in any response that a conveyance model supplier may make in improving its domestic contract terms, since these are voluntary arrangements. However, the RAG acknowledges that such suppliers may incur costs if they decide to update their domestic contract terms, although these are likely to be very small.

3.4.10 Given the anticipated low level of complexity, a single round of consultation should be adequate and the whole process should take approximately 4 – 6 months if appropriate resources are available. Interested parties would likely include affected consumers, consumer representative groups, retailers and distributors that are currently using, or are considering using, the conveyance model.

3.4.11 The development cost is estimated to be approximately $30,000, which equates to 50 cents per conveyance ICP (including only MainPower and TLC ICPs).

Q2.	Do you agree that the benefits of developing minimum terms and conditions for conveyance arrangements are likely to outweigh the costs?

4 Improving the operational efficiency of the arrangements to assist medically dependent and vulnerable consumers

4.1 General support for review

4.1.1 Most submitters considered the arrangements to assist medically dependent and vulnerable consumers are working, but there are some issues to be addressed.

4.1.2 Submitters' views were divided over the extent to which the arrangements to assist medically dependent and vulnerable consumers should be reviewed. One submitter considered no review is required, but did consider the role of social agencies should be clarified. Three submitters suggested a review should focus on problematic issues only, and another three supported a comprehensive review. One submitter considered the review should focus on the best long-term outcome for consumers.

4.1.3 Submitters suggested the following potential benefits:

a) lower costs to the industry and consumers

b) improved outcomes for medically dependent and vulnerable consumers

c) more transparent treatment of vulnerable consumers.

4.1.4 Submitters had few comments on the potential costs, with one submitter suggesting the costs would be modest, one suggesting they could be significant, and one suggesting previous consultations on this topic had been time consuming and resource intensive.

RAG response

4.1.5 The medically dependent and vulnerable consumer guidelines are important as they provide clarity and certainty to consumers and suppliers about the management of electricity supply to vulnerable members of society. Actual or perceived problems about how effectively the regulatory framework and sector provide for these vulnerable consumers can quickly get widespread public attention that may drive ad-hoc and inefficient policy interventions. Consequently, the effectiveness of the guidelines has implications for the durability of the regulatory regime, as well as affecting suppliers' costs to serve.

4.1.6 Having considered submissions, the RAG considers the guidelines are generally working well and should largely be retained in their current form. However, the RAG recommends some minor amendments to address the key operational issues that have been identified.

4.1.7 In addition, the RAG suggests the Authority might like to consider how to facilitate better engagement between retailers and governmental/social agencies. Areas where better engagement between retailers and social agencies might be useful are noted in the following sections.

4.2 Main themes raised in submissions

Identification of medically dependent consumers

4.2.1 Some submitters considered there is a wide variety in how the guidelines are applied. Submitters noted that retailers take very different approaches to managing medically dependent consumers, with the definitions open to interpretation.

4.2.2 Many submitters considered retailers are not the best party to evaluate the extent of a customer's dependency on electricity and that this should be done by a central agency such as by health boards. In addition, some submitters noted:

a) there is a minority of consumers who dishonestly claim they are medically dependent

b) the guidelines are unclear whether medically dependent status can be removed if the customer does not respond to reasonable attempts at communication or refuses to verify their status.

RAG response

4.2.3 The RAG agrees with the majority of submitters that there is a lack of clarity in the definition of medically dependent consumers, as well as no clear guidance on the process retailers should follow in identifying consumers as such. This inevitably results in a wide variety of approaches in applying the guidelines and may mean that some consumers are categorised as being medically dependent when they shouldn't be, and vice versa.

4.2.4 The uncertainty and confusion arising from whether a consumer is medically dependent or vulnerable creates additional risks and costs for retailers and results in perverse incentives for retailers to avoid supplying medically dependent or vulnerable consumers. This issue was also identified by the EGCC who regularly deal with complaints from consumers who are unable to get a retailer to reconnect them following disconnection for non-payment.

4.2.5 The RAG also considers that a wide variety in approaches for identifying medically dependent consumers contributes to difficulties prioritising customers (ICPs) in an emergency (discussed further in the next section).

4.2.6 The RAG recommends the Authority considers the following options for amending the guidelines to address concerns about the identification of medically dependent consumers:

a) improving the clarity of the definition of medically dependent consumers

b) providing a more specific process for retailers to identify and record medical dependency

c) clarifying the circumstances under which retailers are able to remove medically dependent status from a consumer.

Q3.	Do you agree with the options for addressing concerns about identifying medically dependent consumers?

Co-ordination and prioritisation of ICPs in an emergency

4.2.7 As discussed above, some submitters considered a lack of clarity on how medically dependent consumers should be identified contribute to difficulties with co-ordinating and prioritising ICPs in an emergency. Submitters suggested this would be improved if the identification of medically dependent consumers was done by a central agency such as by health boards, and/or if it was held centrally and able to be accessed by emergency management services.

4.2.8 Some submitters were also concerned that the guidelines are unclear on whether a retailer is able to directly share information identifying a consumer as medically dependent with distributors or other agencies such as district councils or Civil Defence in the event of a local emergency or whether this raises privacy issues.

4.2.9 Other related issues raised by submitters were:

a) under the RAG's recommended process for managing retailer default situations, a vulnerable or medically dependent consumer may be switched to a new retailer who may not know the consumer's status, as this information is not held on the registry

b) a distributor might disconnect a vulnerable or medically dependent consumer if the distributor has not been informed of the consumer's status.

RAG response

4.2.10 Having ready access to information about the location of medically dependent and vulnerable consumers is very important for distributors and emergency management agencies to prioritise the restoration of electricity to these consumers following an emergency.

4.2.11 Distributors are lifelines utilities under the Civil Defence and Emergency Management Act 2002. As such, they are required to undertake comprehensive risk assessment and planning for the full range of contingent events covered under that Act. Distributors have key roles and coordination responsibilities during actual civil defence emergencies.

4.2.12 The Civil Defence website provides more detail on the planning and operational responsibilities of lifelines utilities. See http://civildefence.govt.nz.

4.2.13 For events that fall short of declared civil defence emergencies that might otherwise trigger widespread interruptions to electricity supplies, such as some severe local weather events, distributors implement their own internal emergency operational policies and processes. These are likely to be based on their full civil defence emergency operational plans, or an appropriately scaled subset of those plans. In any event, distributors will have a range of plans in place to communicate with local authorities, media and other relevant agencies.

4.2.14 The RAG understands from discussions with the Wellington Regional Emergency Management Office (WREMO) that emergency management agencies place a high priority on ensuring medically dependent and vulnerable consumers are safe following an emergency. To do this effectively, they also need easy access to information about where these consumers are located and whether their electricity supply has been affected by the emergency.

4.2.15 Although the guidelines set out the Authority's expectations about the responsibilities for communications between medically dependent consumers, retailers and distributors, and these arrangements are reflected in the UoSA between distributors and retailers and the retailer's domestic contract with consumers, there is no guidance provided relating to the provision of information to emergency management agencies about the location of medically dependent or vulnerable consumers or about which consumers are affected by outages.

4.2.16 The RAG recommends the Authority considers the following options for improving co-ordination and prioritisation of ICPs in an emergency:

a) establishing a central repository of information about medically dependent and vulnerable consumers, for example, in the registry

b) amending the guidelines to provide better guidance on expectations for communication between retailers, distributors and emergency management agencies.

Q4. Do you agree with the options for improving co-ordination and prioritisation of ICPs in an emergency?

Non-payment of electricity bills by medically dependent and vulnerable consumers

4.2.17 Submitters questioned the extent to which retailers should have a role in extending and managing a line of credit for medically dependent and vulnerable consumers. These submitters considered the primary responsibility for ensuring medically dependent and vulnerable consumers are able to pay for their electricity rests with social agencies, not with retailers.

4.2.18 Some submitters suggested:

a) the current arrangements to assist medically dependent and vulnerable consumers create significant costs and risks to electricity industry and create incentives for retailers to avoid supplying medically dependent and vulnerable consumers

b) improved co-ordination between retailers and social agencies may reduce occurrences of non-payment and subsequent disconnection.

RAG response

4.2.19 The guidelines to assist medically dependent consumers were designed to give effect to the policy objective that any consumer who is dependent on electricity for critical medical support will not be disconnected for reasons of non-payment. The guidelines set out the Authority's expectations that retailers will take actions to minimise debt accumulation by consumers such as discussing alternative payment options with consumers.

4.2.20 However, the guidelines also recognise that retailers have a right to be paid. Although retailers are unable to disconnect medically dependent consumers for reasons of non-payment, the guidelines set out other options for minimising debt accumulation, such as smoothed payments to recover arrears over time, redirection of income, bonds, or requiring consumers to provide an alternate contact who would assist with payments if necessary.

4.2.21 The guidelines refer to the Protocol between electricity retailers and social agencies[5] which was developed by the Authority's predecessor, the Electricity Commission. The protocol aimed to reduce avoidable disconnections through communication between retailers and social agencies, and to ensure low income consumer have access to information and tools to assist them in managing their electricity costs.

4.2.22 In taking over many of the functions of the Electricity Commission, the Authority did not assume responsibility for facilitating the protocol, because it places (albeit voluntary) obligations on parties other than industry participants which extends beyond the functions of the Authority intended under the Electricity Industry Act 2010.

4.2.23 Consequently, the RAG considers it is appropriate for retailers and social agencies to take on responsibility for facilitating the protocol and to work together to improve communications between retailers and social agencies for the benefit of consumers. The Authority may wish to have a role in facilitating such discussions.

Q5. Do you consider the Authority should have a role in facilitating better engagement between retailers and governmental/social agencies?

Ability of medically dependent consumers to cope with supply interruptions

4.2.24 Some submitters noted that medically dependent consumers need to be able to cope with interruption to supply from any cause, not just disconnection for non-payment.

RAG response

4.2.25 The guidelines are intended to assist retailers in ensuring no medically dependent consumers are disconnected for reasons of non-payment for electricity.

4.2.26 The guidelines note that no consumers can be guaranteed a continuous supply of electricity in all circumstances and that it is important that medically dependent consumers have backup plans in place to handle inevitable, albeit temporary, interruptions.

[5] Available at: http://www.ea.govt.nz/consumer/retail-social-agency-protocol/.

4.2.27 The guidelines are clear that the Authority's expectation is that medically dependent consumers need to take responsibility for ensuring they have an emergency response plan in place to respond to any electricity outage.

4.2.28 The guidelines are also clear that health practitioners are responsible for ensuring that:

a) only people well enough or with sufficient support to effectively communicate with their retailer will be discharged from hospital with critical electrical medical equipment

b) medically dependent consumers are provided with knowledge, training and support about what to do in an emergency, including when the supply of electricity may be interrupted for any reason.

4.2.29 Consequently, the RAG does not consider there is a problem with this aspect of the guidelines that should be addressed as part of this project.

Q6.	Do you agree that no changes to the guidelines are required regarding the ability of medically dependent consumers to cope with supply interruptions?

Communications with consumers and remote connections/disconnections

4.2.30 Some submitters considered the roles of electronic communications and remote connections/disconnections need to be clarified in the guidelines. Concerns were raised that the benefits of advanced meters may not be fully realised if the vulnerable consumer guidelines continue to require physical site visits for disconnection when no contact can be made with the customer.

4.2.31 Other submitters considered site visits provide retailers with certainty that a consumer will have received a disconnection notice, as electronic notices may not always reach the consumer.

RAG response

4.2.32 The RAG considers each retailer should determine how it will use technologies such as smart meters for the purposes of remote connections/disconnections, in order to best serve its consumers. However, the RAG also considers it is appropriate for at least one physical site visit if all other attempts to contact the consumer have failed.

4.2.33 Consequently, the RAG does not consider there is problem with this aspect of the guidelines that should be addressed by this project.

Q7. Do you agree that no changes to the guidelines are required regarding electronic communications with consumers and remote connections/disconnections?

The use of prepayment options for medically dependent and vulnerable consumers

4.2.34 Some submitters considered the use of prepayment options for medically dependent and vulnerable consumers is irresponsible as it increases the risk of supply interruptions and hides the level of ability-to-pay related disconnections.

4.2.35 Some submitters noted that the vulnerable consumer guidelines suggest retailers should offer prepayment meters as an alternative to a bond. However, these submitters were concerned that not all retailers offer a prepayment option to their customers and, as the electricity market evolves, there will be retailers for whom prepayment meters do not fit their business model. This could cause a significant problem for vulnerable consumers in areas where prepay is not available, as some vulnerable consumers may not be able to contract with a retailer, for example, due to a poor credit history.

RAG response

4.2.36 The RAG considers prepayment options to be useful in helping vulnerable consumers manage their electricity accounts and avoid the accumulation of debt arising from disconnection/reconnection fees. Retailers are able to determine whether prepayment options are appropriate for individual consumers and to provide advice accordingly.

4.2.37 Although prepayment options are not currently available in all areas, they are becoming increasingly available. The RAG notes that one retailer is planning to expand its prepay service nationwide, following the rollout of advanced meters. Other retailers may choose to develop a similar prepay service. If a particular retailer does not have a prepayment option, an alternative would be for the retailer to suggest the consumer switch to a different retailer that does. In areas where no prepayment option is available, better engagement between retailers and social agencies would likely find a solution.

4.2.38 Consequently, the RAG does not consider there is a problem with this aspect of the guidelines that should be addressed by this project.

Q8. Do you agree that no changes to the guidelines are required regarding the use of prepayment options for medically dependent and vulnerable consumers?

Alignment with gas industry

4.2.39 Some submitters considered better alignment with the gas industry is needed to meet the needs of dual-fuel customers. For example, several submitters were concerned that the maximum bond of $150 was not high enough, particularly for dual-fuel customers.

RAG response

4.2.40 The RAG considers $150 to be an appropriate maximum bond level as bonds are one of a number of tools available to retailers for managing credit risk. The RAG notes that $150 is potentially a significant sum of money for low-income (vulnerable) consumers. The bond is not intended to cover all of a retailer's credit risk in supplying electricity to a consumer and retailers can use other means to prevent against non-payment of bills, such as prepayment options, redirection of income, or improved communication with social agencies.

4.2.41 The RAG notes the guidelines state that bonds should not be used unless:

a) the domestic consumer refuses any other suitable arrangement that would provide credit security to the retailer

b) there has been tampering or interfering with equipment

c) the consumer refuses to allow access to the premises

d) accessing the premises is a health and safety risk.

4.2.42 The RAG also notes that if the issues with non-payment are addressed as discussed above, the need for retailers to require bonds will likely be reduced.

4.2.43 Consequently, the RAG does not consider there is a problem with this aspect of the guidelines that should be addressed by this project.

Q9. Do you agree that no changes to the guidelines are required regarding alignment with the gas industry?

4.3 Summary of proposal to improve the operational efficiency of the arrangements to assist medically dependent and vulnerable consumers

4.3.1 The RAG proposes the Authority amends the guidelines by:

a) improving the clarity of the definition of medically dependent consumers

b) providing a more specific process for retailers to identify and record medical dependency

c) clarifying the circumstances under which retailers are able to remove medically dependent status from a consumer

d) providing better guidance on expectations for communication between retailers, distributors and emergency management agencies.

4.3.2 In addition, the RAG suggests the Authority considers:

a) establishing a central repository of information about medically dependent and vulnerable consumers, for example, in the registry

b) whether to facilitate better engagement between retailers and governmental/social agencies.

4.4 The RAG has undertaken a preliminary evaluation of the costs and benefits of the proposal

4.4.1 The RAG considers that the proposal will result in improved outcomes for medically dependent and vulnerable consumers (through more reliable supply) and lower costs to the industry (through better risk management and more efficient operation).

4.4.2 Improvements to the definition and process for identifying medically dependent consumers (set out in paragraphs 4.3.1a) to c)) will

a) assist retailers in their interactions with consumers, reducing transaction costs and leading to efficiency benefits for consumers

b) result in more consistency between retailers in the identification of medically dependent consumers, which will reduce reputational risk to the industry.

4.4.3 Improvements to communications between retailers, distributors and emergency management agencies will likely lead to better reliability for medically dependent and vulnerable consumers as they will tend to be reconnected faster following extreme events or otherwise assisted to avoid harm.

4.4.4 Establishing a central repository of information about medically dependent and vulnerable consumers will likely lead to:

a) efficiency benefits by improving communication between retailers and distributors and potentially making the switching process easier

b) reliability benefits by reducing the risk that medically dependent and vulnerable consumers are disconnected for non-payment.

4.4.5 Better engagement between retailers and governmental/social agencies will likely lead to efficiency benefits through reduced accumulation of consumer debt, fewer disconnection/reconnection charges, and reduced debt management costs and credit risk for retailers, which will flow through to consumers in lower costs.

4.4.6 As the RAG is recommending the existing guidelines are largely retained and only minimal changes made, the costs are likely to be relatively modest. In the RAG's view, the benefits of these changes described above are likely to far outweigh the costs.

4.4.7 The RAG recognises that the cost of making changes to the registry could be significant, both to the Authority and to participants. However, the incremental costs of such changes could be kept to a minimum if they were part of a package of other registry changes that may be made in the future.

4.4.8 If the Authority decided to take an active role in facilitating better engagement between retailers and governmental/social agencies, this could be done at very low cost using existing resources. The RAG considers that the benefits of improved coordination and communication would more than offset any such costs.

Q10. Do you agree that the benefits of the proposal are likely to outweigh the costs?

5 Monitoring retailers' compliance with their domestic contracts

5.1 Main themes raised in submissions

5.1.1 The majority of submitters did not support the Authority monitoring retailer's compliance with their domestic contracts, with only two submitters in support.

5.1.2 Supporting submitters either had concerns with the EGCC's effectiveness in handling consumer complaints, or considered the Authority has the advantage of a wider industry perspective.

5.1.3 Those who did not support the Authority undertaking this monitoring considered:

a) there is no problem to be addressed

b) customer satisfaction is a better measure of service levels than contractual compliance

c) it would be a sign of regulatory creep

d) it would replicate work already being done by other parties

e) there would be significant and unnecessary transaction and compliance costs with little benefit to be gained

f) customers can generally switch to another retailer if they aren't happy with the level of service they are receiving.

5.1.4 Alternatives suggested by submitters included:

a) accessing information on customer satisfaction from organisations who already provide this (Consumer NZ, EGCC, Roy Morgan, Canstar)

b) use the Authority's broad market investigation powers to investigate specific instances of retailer concern that are brought to it attention

c) broaden online tools, such as 'What's my number', to provide information on service quality indicators.

5.2 The RAG recommends the Authority should not monitor retailers' compliance with their domestic contracts

5.2.1 As the majority of submitters did not support this initiative, and it is likely that alternatives would better meet the objectives without the Authority or the industry incurring additional costs, the RAG recommends there is no need for the Authority to progress this initiative further.

Q11. Do you agree that the Authority should not monitor retailers' compliance with their domestic contracts?

Appendix A Format for submissions

Submitter	

Question		Comment
Q1.	Do you agree that there is value in providing certainty to all consumers about their relationships with distributors and retailers?	
Q2.	Do you agree that the benefits of developing minimum terms and conditions for conveyance arrangements are likely to outweigh the costs?	
Q3.	Do you agree with the options for addressing concerns about identifying medically dependent consumers?	
Q4.	Do you agree with the options for improving co-ordination and prioritisation of ICPs in an emergency?	
Q5.	Do you consider the Authority should have a role in facilitating better engagement between retailers and governmental/social agencies?	
Q6.	Do you agree that no changes to the guidelines are required regarding the ability of medically dependent consumers to cope with supply interruptions?	
Q7.	Do you agree that no changes to the guidelines are required regarding electronic communications with consumers and remote connections/disconnections?	
Q8.	Do you agree that no changes to the guidelines are required regarding the use	

	of prepayment options for medically dependent and vulnerable consumers?	
Q9.	Do you agree that no changes to the guidelines are required regarding alignment with the gas industry?	
Q10.	Do you agree that the benefits of the proposal are likely to outweigh the costs?	
Q11.	Do you agree that the Authority should not monitor retailers' compliance with their domestic contracts?	